

**REPORT OF THE AUDIT OF THE
FAYETTE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FAYETTE COUNTY SHERIFF

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Fayette County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Fayette County Sheriff had total receipts of \$7,710,459, which was a \$32,947 increase from the prior year. Except for reimbursed expenses the Sheriff paid 25% of receipts to the Fayette County Fiscal Court in the amount of \$975,137. This was a decrease of \$22,779 from the prior year. In addition, disbursements decreased by \$1,665,318.

Debt Obligations:

The Fayette County Sheriff's office is committed to two lease agreements for hardware and software. The agreements total \$74,250 as of December 31, 2011. Collections of \$27,000 are needed over the next year to pay debt principal and interest.

The Fayette County Sheriff's office is committed to a lease for real property. The agreement totals \$143,640 as of December 31, 2011. Collections of \$47,880 are needed over the next year to pay the annual rent.

The Fayette County Sheriff's office is committed to a lease agreement for a radio tower. The agreement totals \$24,000 as of December 31, 2011. Collections of \$7,200 are needed over the next year to pay debt principal and interest.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Gray, Mayor, Lexington-Fayette Urban County Government
Honorable Kathy Witt, Fayette County Sheriff
Members of the Lexington-Fayette Urban County Government Council

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Fayette County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2011. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Gray, Mayor, Lexington-Fayette Urban County Government
Honorable Kathy Witt, Fayette County Sheriff
Members of the Lexington-Fayette Urban County Government Council

This report is intended solely for the information and use of the Sheriff, the Lexington-Fayette Urban County Government Council, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

October 25, 2012

FAYETTE COUNTY
KATHY WITT, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Federal Grants		\$	180,901
State Grants			157,009
State Fees for Services			511,560
State Fees - HB 452 Funds			242,988
Circuit Court Clerk			14,487
County Clerk			42,750
Commission on Taxes			5,099,917
Fees Collected for Services:			
Auto Inspections	\$	60,425	
Serving Papers		195,488	
Carrying Concealed Deadly Weapon Permits		40,307	
Sheriff's Sale		27	296,247
Other Revenues:			
Add-On Fees		959,291	
HB 258		1,105	
Bond Performance		12,277	
CCDW Photo		10,395	
Jury Meals		1,882	
Arrest Grant and Bulletproof Vest		12,457	
NSF Fees		2,450	
Interest Earned		4,133	
Miscellaneous		160,610	1,164,600
Total Revenues			7,710,459

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
KATHY WITT, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

Expenditures

Payments to State:

Jury Meals		\$	1,882
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Net Revenues			7,708,577
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Payments to State Treasurer:

75% Operating Fund	\$	6,733,440	
25% County Fund		975,137	7,708,577

Balance Due at Completion of Audit		\$	0
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FAYETTE COUNTY
KATHY WITT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2011

	75% Operating Fund	25% County Fund	Totals
	<hr/>	<hr/>	<hr/>
Fund Balance - January 1, 2011	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	6,733,440		6,733,440
Fees Paid to State - County Funds (25%)		975,137	975,137
	<hr/>	<hr/>	<hr/>
Total Funds Available	6,733,440	975,137	7,708,577
	<hr/>	<hr/>	<hr/>
<u>Expenditures</u>			
Payments to Lexington-Fayette Urban County Government		975,137	975,137
Personnel Services-			
Sheriff's Salary	104,808		104,808
Sheriff's Training Incentive	3,679		3,679
Deputies' Salaries	3,525,717		3,525,717
Overtime Gross	151,780		151,780
Employee Benefits-			
Employer's Share Social Security	266,555		266,555
Employer's Share Retirement	966,037		966,037
Employer's Paid Health Insurance	520,487		520,487
Other Payroll Disbursements			
Workers Compensation	7,120		7,120
Life Insurance	9,058		9,058
Unemployment Insurance	2,070		2,070
Dental Insurance	68,209		68,209
Contracted Services-			
Consulting	47,821		47,821
Materials and Supplies-			
Office Supplies	59,019		59,019

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
 KATHY WITT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Insurance - Property and Casualty	\$ 2,140	\$	\$ 2,140
Equipment Maintenance and Repairs	70,849		70,849
Dues and Subscriptions	360		360
Audit	16,832		16,832
Ammunition	4,732		4,732
Imprest Cash	11,105		11,105
Postage	46,256		46,256
Radio Equipment	3,425		3,425
Tower Rental	4,800		4,800
Training	12,388		12,388
Recruiting	16,189		16,189
Telephone and Pager	48,096		48,096
Uniforms	40,460		40,460
Rent	48,957		48,957
Utilities	7,161		7,161
Parking	31,295		31,295
Victims of Crime Act	20,194		20,194
Waste Management	399		399
Cobra Insurance	32,432		32,432
Internet	1,901		1,901
Wellness Program	4,800		4,800
Sex Offender Management	7,000		7,000
Auto Expenses-			
Gasoline	157,596		157,596
Maintenance and Repairs	27,545		27,545
Equipment	27,024		27,024

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
 KATHY WITT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Capital Outlay-			
Body Armor	\$ 8,490	\$	\$ 8,490
Radio Purchase	4,326		4,326
Computer Purchase	1,860		1,860
Investigative Management System	20,722		20,722
Reference Guide	850		850
Vehicle Equipment	45,939		45,939
Total Expenditures	6,458,483	975,137	7,433,620
Fund Balance - December 31, 2011	\$ 274,957	\$ 0	\$ 274,957

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.76 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 2. Employee Retirement System (Continued)

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 3. Deposits

The Fayette County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Fayette County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Leases

- A. The office of the Sheriff was committed to a lease agreement with Custom Solutions Inc. for the leasing of hardware. The agreement requires a monthly payment of \$1,350 beginning October 1, 2011 and is renewable annually for three years. The remaining balance of the agreement for the full lease term was \$44,550 as of December 31, 2011.
- B. The office of the Sheriff was committed to a lease agreement with Custom Solutions Inc. for the leasing of software. The agreement requires a monthly payment of \$900 beginning October 1, 2011 and is renewable annually for three years. The remaining balance of the agreement for the full lease term was \$29,700 as of December 31, 2011.
- C. On December 15, 2010 the Sheriff entered into a new four year lease agreement with Fortune Business Centre, LLC, for real property located at 1700 Fortune Court, Lexington, KY. This agreement requires a monthly payment of \$3,990. This lease is renewable for one additional consecutive four year period. The remaining balance of the agreement for the full lease term was \$143,640 as of December 31, 2011.
- D. On May 1, 2010 the Sheriff entered into a five year lease agreement with Clear Channel Vertical Real Estate for a radio tower. This agreement requires a monthly payment of \$600. The remaining balance of the agreement for the full lease was \$24,000 as of December 31, 2011.

Note 5. Return of Fugitive Account

The Sheriff maintains a separate bank account for expenses incurred during the return of fugitives. The Sheriff's office incurs expenses for these trips and requests reimbursements from the state. The reimbursements are then deposited into the bank account at which time the expenses are paid. The beginning balance was \$0. There were receipts of \$80,382 and disbursements of \$80,382, leaving a balance of \$0 as of December 31, 2011.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011
(Continued)

Note 6. Asset Forfeiture Account

The Sheriff maintains a separate bank account for monies that are seized and forfeited to the Sheriff's office by court order. The balance as of January 1, 2011 was \$748. During 2011 the Sheriff received \$441 in forfeiture monies and \$2 in interest. Funds of \$1,189 were expended. The balance of the account as of December 31, 2011 was \$2.

Note 7. Federal Grants

A. Taking Action For A Safer Tomorrow Grant

The Fayette County Sheriff's office was awarded a Taking Action For A Safer Tomorrow Grant for the period October 1, 2010 through September 30, 2011. During 2011, grant funds in the amount of \$32,493 were received for reimbursement of grant related expenditures.

B. Taking Action For A Safer Tomorrow Grant

The Fayette County Sheriff's office was awarded a Taking Action For A Safer Tomorrow Grant for the period October 1, 2011 through September 30, 2012. During 2011, grant funds in the amount of \$12,457 were received for reimbursement of grant related expenditures.

C. Fayette County Domestic Violence Intake Center

The Fayette County Sheriff's office was awarded a Fayette County Domestic Violence Intake Center grant for the period January 1, 2011 through December 31, 2011. During 2011 grant funds in the amount of \$83,082 were received for reimbursement of grant related expenditures.

D. Justice Assistance Grant

The Fayette County Sheriff's office is the sub-recipient of the Lexington-Fayette Urban County Government's Justice Assistance Grant funded under the American Recovery and Reinvestment Act of 2009 in the amount of \$135,000. This agreement provides for the employment of a full time Sergeant to serve as the Extradition Coordinator. The term of the grant is September 1, 2009 through October 31, 2012. The grant is a reimbursement grant. During calendar year 2011 funds in the amount of \$52,869 were received for reimbursement of grant related expenditures.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Gray, Mayor, Lexington-Fayette Urban County Government
The Honorable Kathy Witt, Fayette County Sheriff
Members of the Lexington-Fayette Urban County Government Council

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Fayette County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated October 25, 2012. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Fayette County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fayette County Sheriff's financial statements for the year ended December 31, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Sheriff, the Lexington-Fayette Urban County Government Council, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

October 25, 2012

